

Message Text

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ORIGIN TRSE-00

INFO OCT-01 NEA-10 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11

FRB-02 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

STR-08 /191 R

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NEA/ARP:BWRAMPELMEIER

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FM SECSTATE WASHDC

TO AMEMBASSY JIDDA

C O N F I D E N T I A L STATE 212023

E.O. 11652:

SUBJECT: ARAB THREAT TO WITHDRAW FUNDS FROM U.S. BANKING
AND FINANCIAL INSTITUTIONS

REF: JIDDA 4616

1. YOUR RESPONSE TO YAMANI AND ADHAM WAS IN THE
RIGHT VEIN, ALTHOUGH BELIEVE IT ADVISABLE AVOID
ANY SPECIFIC PREDICTIONS REGARDING READINESS OF
EUROPEANS TO BUY DOLLARS. IT DOES SEEM LIKELY THAT EFFECT
OF THE ARAB WITHDRAWAL OF DOLLARS FOM U.S. BANKS AND OTHER
FINANCIAL INSTITUTIONS AND SHIFTING INTO
OTHER CURRENCIES WOULD BE TO DEPRESS DOLLAR ONLY
TEMPORARILY. IN VIEW OF STRENGTHENING U.S. TRADE AND
BASIC ACCOUNT POSITION, THIS KIND OF TRANSACTION
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WOULD PROBABLY PROVE UNPROFITABLE FOR ARABS IN MEDIUM TERM.

2. AS YOU SUGGEST, DIRECT ADVERSE IMPACT ON U.S. INTEREST WOULD PROBABLY BE LIMITED. OBVIOUSLY, EVEN TEMPORARY UPSET IN FOREIGN EXCHANGE MARKETS WOULD NOT BE WELCOMED EITHER BY U.S. OR THE EUROPEANS. NEVERTHELESS, SINCE REASONS FOR PRESSURE WOULD BE KNOWN BY KEY OFFICIALS, EFFECT ON ATMOSPHERE OF CURRENT C-20 MONETARY NEGOTIATIONS WOULD PROBABLY NOT BE SERIOUS. ARABS WOULD GET ONUS - NOT US.

3. MORE LASTING POSSIBLE EFFECTS SHOULD BE OF CONCERN TO ARABS. SHIFTING OF RESERVES FOR POLITICAL REASONS COULD PLAY INTO HANDS OF THOSE WHO ARE SUSPICIOUS OF ARABS' INTENTIONS AND SENSE OF FINANCIAL RESPONSIBILITY. ASIDE FROM POSSIBLE DAMAGE TO ATMOSPHERE FOR HARMONIOUS AND MUTUALLY BENEFICIAL LONG-TERM FINANCIAL ARRANGEMENTS, THOSE WHO SEE NECESSITY FOR GOVERNMENTAL CONTROLS OVER CAPITAL MOVEMENTS AS MEANS OF PROMOTING MONETARY STABILITY WILL BE STRENGTHENED. IT IS U.S. WHICH HAS BEEN STAUNCHLY DEFENDING FREEDOM FOR BOTH CAPITAL AND TRADE FLOWS, WHILE LOOKING FOR COMMON GROUND WITH ARABS ON PROBLEM IN CONTEXT OF NEW MONETARY SYSTEM. THUS, IF WITHDRAWAL OF FUNDS HAD ANY LASTING EFFECT, IT WOULD PROBABLY BE IN WAY ADVERSE TO ARAB INTERESTS, I.E. TOWARD GREATER EMPHASIS ON RESTRICTIONS ON MOVEMENTS OF FUNDS IN GENERAL AND WITH RESPECT TO "OIL MONEY" IN PARTICULAR.
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